IMPENDLE LOCAL MUNICIPALITY

Annual Financial Statements
for the year ended 30 June 2017

General Information

Contact Numbers	Tel. 033 996 6000
Website	Fax: 033 996 0852
	www.impendle.gov.za
Demarcation Code	KZN224
Municipal Council	Current (From 10 August 2016 to 30 June 2017)
Mayor	Cllr. Ndlela SG (Speaker)
Councilors	Cllr. Dlamini DS
	Cllr. Dlamini K
	Cllr. Memela T
	Cllr. Mtolo P (MPAC Chairperson)
	Cllr. Mvelase NG
	Cllr. Ngubane S
	Former Councillors (From 1 July 2016 to 2 August 2016)
	Cllr. Gwala CD
	Cllr. Mlaba S
	Cllr. Zuma HT
Grading of local authority	Grade 1
	Catergory B
Accounting Officer (AO)	Mr. Kunene OV (Acting) November 2016 to date
	Mr. Mabaso SI from 1 July 2016 up to 30 October 2016
Chief Finance Officer (CFO)	Mrs. Soji SZ (Acting) From April 2017 to date
	Mr. Ngcobo S (Acting) From November 2016 to March 2017
	Mr. Kunene OV From July 2016 to October 2016
Registered office	21 Mafahleni Street
	Impendle
	3227
Business address	21 Mafahleni Street
	Impendle
	3227
Postal address	Private Bag X512
	Impendle
	3227
Bankers	Amalgamated Banks of South Africa (ABSA)
	Chatterton Branch, Pietermaritzburg
Auditors	Auditor General South Africa
Attorneys	GNG Incorporated
	211 Burger Street
	Pietermaritzburg
	3200

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The reports and statements set out below comprise the annual financial statements presented to the Impendle Municipal Council:

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
DORA	Division of Revenue Act
EPWP	Expanded Public Works Programme
UMDM	Umgungundlovu District Municipality

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Legislation

The following legislations were taken into account during the preparation of the Financial Statements: Constitution of the Republic of South Africa 1996, Municipal Systems Act 32 of 2000, Municipal Finance Management Act 56 of 2003, Municipal Property Rates Act 6 of 2004, Municipal Structures Act 117 of 1998 and Division of Revenue Act.

Accounting Officer's Responsibilities and Approval

The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records; responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied, supported by reasonable and prudent judgements and estimates.

The Accounting Officer acknowledges that he is ultimately responsible for the system of internal control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the Accounting Officer to meet these responsibilities, the Accounting Officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The Accounting Officer has reviewed the municipality’s cash flow forecast for the year ending 30 June 2018 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue its operational existence for the foreseeable future.

The municipality is dependent on the grant allocations through the Division of Revenue Act (2016) for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Impendle Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the Accounting Officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's Chief Financial Officer.

Auditor General of South Africa is responsible for independent review of Annual Financial Statements and expressing an opinion on fair presentation.

The annual financial statements set out on page 5 to 58, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2017 and were signed on its behalf by:

Accounting Officer
Kunene O.V. (Mr)

Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016
Assets			
Current Assets			
Operating lease asset	3	54 289	57 912
Receivables from exchange and non exchange transactions	4	430 802	386 250
Receivables from non-exchange transactions		-	-
VAT receivable	5	1 070 870	671 272
Consumer debtors	6	5 527 043	3 857 965
Cash and cash equivalents	7	3 272 850	4 099 483
		10 355 854	**9 072 882**
Non-Current Assets			
Investment property	8	11 815 000	11 330 000
Property, plant and equipment	9	107 661 192	104 239 184
Intangible assets	10	1 047 874	314 987
		120 524 066	**115 884 171**
Total Assets		**130 879 920**	**124 957 053**
Liabilities			
Current Liabilities			
Operating lease liability	3	114 536	200 845
Payables from exchange transactions	12	3 601 114	1 027 053
Unspent conditional grants and receipts	13	813 571	381 091
Provisions	14	2 621 965	2 597 689
Current portion of Long Term Loan	15	603 028	548 627
		7 754 214	**4 755 305**
Non-Current Liabilities			
Long Service Awards		666 126	610 695
Long Term Loan	15	1 265 054	1 868 081
		1 931 180	**2 478 776**
Total Liabilities		**9 685 394**	**7 234 081**
Net Assets		**121 194 526**	**117 722 972**
Reserves			
Revaluation reserve	17	14 150 253	13 943 661
Accumulated surplus		107 044 273	103 779 311
Total Net Assets		**121 194 526**	**117 722 972**

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016
Revenue			
Service charges	18	48 128	44 691
Rendering of services		49 091	46 177
Rental of facilities and equipment	20	630 523	193 591
Rental income		3 365	251 827
Donations received- Assets		-	942 770
Other income	21	123 375	171 085
Debt impairment recovery		-	2 063 933
Interest received - investment		1 410 804	1 293 665
Property rates	23	4 489 770	4 064 654
Government grants & subsidies	24	61 435 415	62 649 069
Licences and permits		1 270	305 050
Licences and permits		29 328	36 383
Total revenue		**68 221 069**	**72 062 895**
Expenditure			
Employee related costs	25	22 206 289	19 747 745
Remuneration of councillors	26	2 160 838	2 106 111
Audit fees		916 801	971 466
Depreciation and amortisation	28	7 513 020	6 517 203
Impairment loss/ Reversal of impairments	29	2 877 712	3 952 310
Finance costs	30	255 997	292 983
Bad debts	31	369 477	167 721
Debt impairment		862 113	167 783
Contracted services	32	1 789 823	2 351 954
Grant funded expenditure	33	13 001 483	13 036 074
General Expenses	34	11 404 601	11 624 488
Total expenditure		**63 358 154**	**60 935 838**
Operating surplus		**4 862 915**	**11 127 057**
Gain on disposal of assets		-	23 098
Fair value adjustments	35	485 000	330 000
Actuarial gains/losses		88 116	-
		573 116	**353 098**
Surplus for the year		**5 436 031**	**11 480 155**

Impendle Local Municipality
Annual Financial Statements for the year ended 30 June 2017

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Balance at 01 July 2015	**11 393 583**	**92 299 156**	**103 692 739**
Changes in net assets			
Revaluation of Infrastructure Assets	2 550 078	-	2 550 078
Net income (losses) recognised directly in net assets	2 550 078	-	2 550 078
Surplus for the year	-	11 480 155	11 480 155
Total recognised income and expenses for the year	2 550 078	11 480 155	14 030 233
Total changes	2 550 078	11 480 155	14 030 233
Balance at 01 July 2016	**13 943 661**	**103 779 310**	**117 722 971**
Changes in net assets			
Revaluation of Infrastructure Asset	206 592	-	206 592
Net Surplus (Deficit) recognised directly in net assets	206 592	-	206 592
Surplus for the year	-	5 436 031	5 436 031
Total recognised income and expenses for the year	206 592	5 436 031	5 642 623
Other Adjustments	-	(2 171 068)	(2 171 068)
Total changes	206 592	3 264 963	3 471 555
Balance at 30 June 2017	**14 150 253**	**107 044 273**	**121 194 526**
Note(s)	17		

Cash Flow Statement

Figures in Rand	Note(s)	2017	2016
Cash flows from operating activities			
Receipts			
Receipts from customers		4 928 857	4 064 654
Grants and subsidies received		61 511 144	62 566 000
Service charges- Refuse		49 091	44 691
Interest income		1 410 804	1 293 665
Other receipts		1 026 558	919 399
		68 926 454	68 888 409
Payments			
Employee costs		(24 367 128)	(21 750 582)
Suppliers		(26 220 722)	(28 460 290)
Finance costs		(255 997)	(292 983)
		(50 843 847)	(50 503 855)
Net cash flows from operating activities	36	**18 082 607**	**18 384 554**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(17 012 300)	(17 879 451)
Proceeds from disposal of property, plant and equipment	9	-	112 581
Purchase of other intangible assets	10	(1 348 314)	(663 528)
Net cash flows from investing activities		**(18 360 614)**	**(18 430 398)**
Cash flows from financing activities			
Movement in Long Term Loan		(548 626)	(498 489)
Net increase/(decrease) in cash and cash equivalents		**(826 633)**	**(544 333)**
Cash and cash equivalents at the beginning of the year		4 099 483	4 643 817
Cash and cash equivalents at the end of the year	7	**3 272 850**	**4 099 484**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	39 334	-	**39 334**	48 128	**8 794**	45
Rendering of services	-	-	**-**	49 091	**49 091**	45
Rental of facilities and equipment	650 337	299 728	**950 065**	630 523	**(319 542)**	45
Agency services	43 247	9 709	**52 956**	-	**(52 956)**	45
Rental income	-	-	**-**	3 365	**3 365**	45
Other income	501 031	506 881	**1 007 912**	123 375	**(884 537)**	45
Interest received - investment	694 000	-	**694 000**	1 410 804	**716 804**	45
Interest received - Outstanding Debtors	120 000	431 638	**551 638**	-	**(551 638)**	
Total revenue from exchange transactions	**2 047 949**	**1 247 956**	**3 295 905**	**2 265 286**	**(1 030 619)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	4 479 308	769 416	**5 248 724**	4 489 770	**(758 954)**	45
Transfer revenue						
Government grants & subsidies	43 355 000	1 441 000	**44 796 000**	61 435 415	**16 639 415**	45
Fines, Penalties and Forfeits	-	1 000	**1 000**	1 270	**270**	45
Licences and permits	42 266	(1 383)	**40 883**	29 328	**(11 555)**	45
Total revenue from non-exchange transactions	**47 876 574**	**2 210 033**	**50 086 607**	**65 955 783**	**15 869 176**	
Total revenue	**49 924 523**	**3 457 989**	**53 382 512**	**68 221 069**	**14 838 557**	
Expenditure						
Employee Related Costs	(20 634 194)	(1 374 645)	**(22 008 839)**	(22 206 289)	**(197 450)**	45
Remuneration of councillors	(2 307 182)	-	**(2 307 182)**	(2 160 838)	**146 344**	45
Audit fees	(900 000)	-	**(900 000)**	(916 801)	**(16 801)**	45
Depreciation and amortisation	(7 715 985)	-	**(7 715 985)**	(7 513 020)	**202 965**	45
Impairment loss/ Reversal of impairments	-	-	**-**	(2 877 712)	**(2 877 712)**	45
Finance costs	(206 075)	-	**(206 075)**	(255 997)	**(49 922)**	45
Bad debts	-	-	**-**	(369 477)	**(369 477)**	45
Debt impairment	(1 744 308)	-	**(1 744 308)**	(862 113)	**882 195**	45
Contracted Services	(583 212)	(443 116)	**(1 026 328)**	(1 789 823)	**(763 495)**	45
Transfers and Subsidies	(3 619 699)	548 975	**(3 070 724)**	(16 518 051)	**(13 447 327)**	45
General Expenses	(21 563 774)	(2 484 351)	**(24 048 125)**	(7 888 033)	**16 160 092**	45
Total expenditure	**(59 274 429)**	**(3 753 137)**	**(63 027 566)**	**(63 358 154)**	**(330 588)**	
Operating surplus	**(9 349 906)**	**(295 148)**	**(9 645 054)**	**4 862 915**	**14 507 969**	
Fair value adjustments	-	-	**-**	485 000	**485 000**	45
Actuarial gains/losses	-	-	**-**	88 116	**88 116**	45
	-	**-**	**-**	**573 116**	**573 116**	
Surplus before Capital	**(9 349 906)**	**(295 148)**	**(9 645 054)**	**5 436 031**	**15 081 085**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**11 382 000**	**5 000 000**	**16 382 000**	**5 436 031**	**(10 945 969)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Operating lease asset	-	-	**-**	54 289	**54 289**	(1)
Receivables from exchange and non exchange transactions	-	-	**-**	430 802	**430 802**	
VAT receivable	-	-	**-**	1 070 870	**1 070 870**	(2)
Consumer debtors	2 608 000	1 300 000	**3 908 000**	5 527 043	**1 619 043**	(3)
Other Debtors	450 000	200 000	**650 000**	-	**(650 000)**	
Cash and cash equivalents	2 726 000	-	**2 726 000**	3 272 850	**546 850**	(4)
	5 784 000	**1 500 000**	**7 284 000**	**10 355 854**	**3 071 854**	
Non-Current Assets						
Investment property	10 750 000	850 000	**11 600 000**	11 815 000	**215 000**	
Property, plant and equipment	95 678 858	14 518 600	**110 197 458**	107 661 192	**(2 536 266)**	
Intangible assets	350 000	-	**350 000**	1 047 874	**697 874**	(5)
	106 778 858	**15 368 600**	**122 147 458**	**120 524 066**	**(1 623 392)**	
Total Assets	**112 562 858**	**16 868 600**	**129 431 458**	**130 879 920**	**1 448 462**	
Liabilities						
Current Liabilities						
Other financial liabilities	548 626	-	**548 626**	-	**(548 626)**	
Operating lease liability	-	-	**-**	114 536	**114 536**	(6)
Payables from exchange transactions	1 331 000	-	**1 331 000**	3 601 114	**2 270 114**	(7)
Unspent conditional grants and receipts	(548 627)	548 599	**(28)**	813 571	**813 599**	(8)
Provisions	1 200 000	-	**1 200 000**	2 621 965	**1 421 965**	
Current portion of Long Term Loan	-	-	**-**	603 028	**603 028**	
	2 530 999	**548 599**	**3 079 598**	**7 754 214**	**4 674 616**	
Non-Current Liabilities						
Provisions	476 817	300 000	**776 817**	-	**(776 817)**	
Long Service Awards	-	-	**-**	666 126	**666 126**	
Long Term Loan	1 868 082	(548 629)	**1 319 453**	1 265 054	**(54 399)**	(9)
	2 344 899	**(248 629)**	**2 096 270**	**1 931 180**	**(165 090)**	
Total Liabilities	**4 875 898**	**299 970**	**5 175 868**	**9 685 394**	**4 509 526**	
Net Assets	**107 686 960**	**16 568 630**	**124 255 590**	**121 194 526**	**(3 061 064)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Revaluation reserve	-	16 539 630	**16 539 630**	14 150 253	**(2 389 377)**	
Accumulated surplus	107 686 960	29 000	**107 715 960**	107 044 273	**(671 687)**	
Total Net Assets	**107 686 960**	**16 568 630**	**124 255 590**	**121 194 526**	**(3 061 064)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

1. Operating lease asset- this relates to lease rental income which was budgeted for under rental of facilities.
Receivables from exchanged transactions- budget included estimated revenue due to the municipality for rental for new contracts entered into during the reporting period.
2. VAT receivable- a portion of VAT refund is included in the non-exchange receivables budget.
3. Consumer debtors- new valuation roll commenced and property values increased which resulted in increase in debtors book.
4. Cash and cash equivalents- budget projections relates to 100% expenditure incurred for the year relating to conditional grants.
5. Intangible assets- this item was budgeted for under the property,plant and equipment line item.
6. Operating lease liability- this item was budgeted for under the operating lease expenses.
7. Payables from exchanged transactions- budget projections included anticipated unspent grant expenditure from previous financial year.
8. Unspent conditional grants and receipts- item budgeted for under payables from exchange transactions budget.
9. Long-term loan- a new loan was taken during the reporting period, processes for the approval of the loan were expected to be concluded during 2015/2016 financial year therefore the loan liability was budgeted for in the 2015/2016 financial year.

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice , issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

Trade receivables and receivables

The municipality assesses its trade receivables and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of and tangible assets.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Useful lives of property, plant and equipment and intangible assets

As described in Accounting Policies 1.5 and 1.7, the municipality depreciates/amortises its property, plant and equipment, and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

Provision for Rehabilitation of Landfill Site

The municipality has an obligation to rehabilitate its refuse transfer station. Provision is made for this obligation based on the size / extent of the land to be rehabilitated. Current costs are projected based on the fair value calculations by the Engineering Consultants, using the average rate of inflation over the remaining period until rehabilitation.

Allowance for doubtful debts

The measurement of receivables is derived after consideration of the allowance for doubtful debts. Management makes certain assumptions regarding the categorisation of debtors into groups with similar risk profiles so that the effect of any impairment on a group of receivables would not differ materially from the impairment that would have been determined had each debtor been assessed for impairment on an individual basis. The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this allowance the estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, the cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

1.4 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction cannot be determined reliably but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the municipality determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the municipality measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The municipality applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the minicipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

1.5 Property, plant and equipment (continued)

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for for Infrastructure Assets and Investment Propetry Assets which are carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset. The municipality uses a net replacement value method as a measurement basis for determining gross carrying amount on property, plant and equipment.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Accounting Policies

1.5 Property, plant and equipment (continued)

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Unfinite
Buildings	Straight line	30
Plant and machinery	Straight line	10-15
Furniture and fixtures	Straight line	10
Motor vehicles	Straight line	5-7
Office equipment	Straight line	
• Computer Hardware		4
• Office Machinery		3-5
IT equipment	Straight line	3-5
Computer software	Straight line	3-5
Infrastructure- Roads	Straight line	10-15
Community	Straight line	
• Sportfields		30
• Community Halls		30
Other property, plant and equipment	Straight line	
• Security Measures 3		3
• Security Measures 5		5
Other equipment	Straight line	
• Kitchen Equipment		5-7
Communication equipment	Straight line	
• A/V Equipment		5

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.5 Property, plant and equipment (continued)

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Derecognition

Item of property, plant and equipment are derecognised when the asset is disposed off or when there are no future economic benefits or service potential expected from the use of an asset, the gain or losses arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equpment. Such obligations are referred to initial estimate of the costs of dismantling and removing the item and restoring the site on which it it is located, the obligation for which a municipality incurrs either when the item is acquired or as a consequences of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:
- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:
- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.7 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

1.7 Intangible assets (continued)

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software, other	3 - 5 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

Accounting Policies

1.8 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Financial assets at fair value through surplus or deficit - designated
- Loans and receivables

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit dividends or similar distributions and interest.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

1.8 Investments in associates (continued)

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.8 Investments in associates (continued)

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher fair value less costs to sell and its value in use.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

1.10 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Accounting Policies

1.11 Impairment of non-cash-generating assets (continued)

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow: [Specify criteria]

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

1.11 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset’s gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an “optimised” basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.11 Impairment of non-cash-generating assets (continued)

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.13 Employee benefits

Employee benefits are all forms of consideration given by a entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- a entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from a entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Accounting Policies

1.13 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.13 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which a entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:
- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, a entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Post-employment benefits: Defined benefit plans

The municipality does not have post employment benefit plans. However, the municipality recognises its employees who have completed 10, 20, 30, 40 years of service in terms of the collective agreement.

Actuarial valuations are conducted on an annual basis by independent actuaries. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.14 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

1.14 Provisions and contingencies (continued)

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

A constructive obligation to restructure arises only when a municipality:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

1.16 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

1.17 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

1.17 Revenue from non-exchange transactions (continued)

Fines

Revenue from the issuing of fines is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Levies

Levies are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:
- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Concessionary loans received

A concessionary loan is a loan granted to or received by an property, plant and equipment on terms that are not market related.

1.17 Revenue from non-exchange transactions (continued)

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the cash flow statement recognises revenue as and when it satisfies the conditions of the loan agreement.

1.18 Commitments

The term commitments' is not defined in any of the standards but may be referred to as the intention to commit to an outflow from the municipality of resources embodying economic benefits. Generally, a commitment arises when a decision is made to incur a liability in the form of a purchase contract (or similar documentation). Such a contractual commitment would be accompanied by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules. These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement. An agency may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the municipality has contracted for expenditure but work has not commenced and no payments have been made.

1.19 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.21 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.22 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Accounting Policies

1.24 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and which have not been condoned as the end of the year must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management (Act No.56 of 2003), the Municipal Systems (Act No.32 of 2000), and the Public Office Bearers (Act No. 20 of 1998) or is in contravention of the economic municipality’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.25 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.26 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.27 Segment information

A segment is an activity of an entity:
- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financila Statistics classifications and budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

Accounting Policies

1.28 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2016/07/01 to 2017/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.29 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

1.30 Value Added Taxation

The Municipality accounts for Value Added Tax on payment basis. This means that VAT is declared to the South African Receiver of Revenue Services as input VAT or output VAT only when payments are made to suppliers or invoices made out to customers for goods and services. The net output VAT on debtors where money has not been received or creditors where payments has not yet been made is disclosed separately in the Statements of Financial Position in terms of GRAP 1.

1.31 Events after the Reporting Period

Adjusting and non-adjusting events may occur between the reporting date and the date the report is authorised for issue. Where an adjusting event occurs that affects a liability that has been disclosed, for example, the amount or timing of a liability has altered or an uncertainty relating to a provision has been removed, then an adjustment to that item is required. Where a future obligation relating to a contingent liability has been confirmed, i.e. a court case is settled after the reporting date and the contingency has previously been disclosed in a note, then a liability or provision will need to be recognised as follows:
- as a provision if some uncertainty still exists with respect to the amount or timing of the discharge of the obligation; or
- as a liability if no uncertainties exist. Where a non-adjusting event occurs relating to liabilities, for example, the market value of a financial liability changes after the reporting date, no adjustments are made to the financial statements. However, if a non-adjusting event is material, the agency must disclose the following for each material category of non-adjusting event after the reporting date: the nature of the event; and
- an estimate of its financial effect, or a statement that such an estimate cannot be made.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 16 (as amended 2016): Investment Property

Amendments to the Standard of GRAP on Investment Property resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IAS 40 on Investment Property (IAS 40) as a result of the IASB's amendments on Annual Improvements to IFRSs 2011 – 2013 Cycle issued in December 2013.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IASB amendments: To clarify the interrelationship between the Standards of GRAP on Transfer of Functions Between Entities Not Under Common Control and Investment Property when classifying investment property or owner-occupied property.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

The impact of the standard is set out in note of Changes in Accounting Policy.

GRAP 17 (as amended 2016): Property, Plant and Equipment

Amendments to the Standard of GRAP on Property, Plant and Equipment resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of property, plant, and equipment is revalued; To clarify acceptable methods of depreciating assets; To align terminology in GRAP 17 with that in IPSAS 17. The term "specialist military equipment" in IPSAS 17 was replaced with the term "weapon systems" and provides a description of what it comprises in accordance with Government Finance Statistics terminology; and To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

The impact of the standard is set out in note of Changes in Accounting Policy.

GRAP 31 (as amended 2016): Intangible Assets

Amendments to the Standard of GRAP on Intangible Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 31 on Intangible Assets (IPSAS 31) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The most significant changes to the Standard are:

- General improvements: To add the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of intangible assets is revalued; and To clarify acceptable methods of depreciating assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

The impact of the standard is set out in note of Changes in Accounting Policy..

3. Operating lease asset (accrual)

Current assets	54 289	57 912
Non-current liabilities	-	-
Current liabilities	(114 536)	(200 845)
	(60 247)	**(142 933)**

4. Receivables from exchange and non exchange transactions

Other receivables	379 337	336 133
Other receivables - Traffic Fines	50 117	50 117
Other Debtors	1 348	-
	430 802	**386 250**

5. VAT receivable

VAT	1 070 870	671 272

6. Consumer debtors

Gross balances		
Rates	6 758 633	4 553 959
Less: Allowance for impairment		
Rates	(1 231 590)	(695 994)
Net balance		
Rates	5 527 043	3 857 965

Rates		
Current (0 -30 days)	402 206	302 585
31 - 60 days	289 497	20 288
61 - 90 days	100 694	59 537
91 - 120 days	339 844	47 914
121 - 365 days	1 971	745 853
> 365 days	4 392 831	2 681 788
	5 527 043	**3 857 965**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

6. Consumer debtors (continued)

Reconciliation of allowance for impairment

Debt impairment written off against allowance	(1 231 590)	(695 994)

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	162	9 452
Bank balances	2 889 554	4 090 031
Short-term deposits	383 134	-
	3 272 850	**4 099 483**

There were no contract debtors that were pledged as security for overdraft facilities during the 2016/17 financial year.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
ABSA BANK - Call Account - 4076240270	2 885 852	4 102 446	445 568	2 889 554	4 090 031	419 248
ABSA BANK - Call Account - 929 72666 18	-	-	1 000	-	-	1 000
ABSA BANK - Call Account - 929 835 4535	-	-	2 456	-	-	2 456
ABSA BANK - Call Account - 929 670 5825	-	-	90 854	-	-	90 854
ABSA BANK - Call Account - 929 670 449	-	-	6 351	-	-	6 351
ABSA BANK - Call Account - 9306 095 433	-	-	12 627	-	-	12 627
ABSA BANK - Call Account - 929 6706 334	-	-	530 498	-	-	530 498
ABSA BANK - Call Account - 929 670 6261	-	-	3 526 972	-	-	3 526 972
ABSA BANK - Call Account - 929 7366 157	-	-	43 811	-	-	43 811
FNB- Call Account- 62631786996	71 276	-	-	71 276	-	-
FNB- Call Account- 62631816660	70 838	-	-	70 838	-	-
FNB- Call Account- 62631790690	241 020	-	-	241 020	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
Petty Cash	-	-	10 000	162	9 452	10 000
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
Total	**3 268 986**	**4 102 446**	**4 670 137**	**3 272 850**	**4 099 483**	**4 643 817**

8. Investment property

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	11 815 000	-	11 815 000	11 330 000	-	11 330 000

Reconciliation of investment property - 2017

	Opening balance	Fair value adjustments	Total
Investment property	11 330 000	485 000	11 815 000

Reconciliation of investment property - 2016

	Opening balance	Fair value adjustments	Total
Investment property	11 000 000	330 000	11 330 000

Pledged as security

There were no item of property, plant and equipment that were pledged as security for overdraft facilities during the 2016/17 financial year. Investment properties are fair-valued by an independent valuer every year. The valuation was performed using the market related research to establish market value on investment properties.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The effective date of the revaluations was . Revaluations were performed by an independent valuer, Mills Fitchets who is not connected to the municipality and have recent experience in location and have suitable qualifications in the category of the investment property being valued.

The valuation was based on open market value for existing use.

These assumptions are based on current market conditions.

9. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	11 232 000	-	11 232 000	11 232 000	-	11 232 000
Buildings	4 831 057	(2 005 692)	2 825 365	4 686 591	(1 849 378)	2 837 213
Plant and machinery	1 924 868	(1 046 524)	878 344	2 880 413	(1 689 384)	1 191 029
Furniture and fixtures	1 324 663	(1 020 146)	304 517	1 405 081	(938 665)	466 416
Motor vehicles	1 417 037	(818 854)	598 183	2 062 461	(1 007 052)	1 055 409
Office equipment	339 670	(289 368)	50 302	377 587	(298 880)	78 707
IT equipment	1 088 194	(659 646)	428 548	1 309 108	(814 943)	494 165
Infrastructure	63 006 357	(25 345 827)	37 660 530	53 323 795	(21 046 224)	32 277 571
Community	38 379 148	(4 620 050)	33 759 098	37 707 885	(3 347 464)	34 360 421
Security Measures	417 236	(406 007)	11 229	422 788	(407 266)	15 522
Communication equipment	128 032	(100 936)	27 096	176 803	(146 159)	30 644
Assets under construction	19 868 813	-	19 868 813	20 185 206	-	20 185 206
Kitchen equipment	49 788	(32 621)	17 167	49 151	(34 270)	14 881
Total	**144 006 863**	**(36 345 671)**	**107 661 192**	**135 818 869**	**(31 579 685)**	**104 239 184**

Notes to the Annual Financial Statements

Figures in Rand

9. Heritage assets (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Assets Written Off	Transfers	Revaluations	Depreciation	Total
Land	11 232 000	-	-	-	-	-	11 232 000
Buildings	2 837 213	144 465	-	-	-	(156 313)	2 825 365
Plant and machinery	1 191 029	22 807	(144 090)	-	-	(191 402)	878 344
Furniture and fixtures	466 416	818	(46 603)	-	-	(116 114)	304 517
Motor vehicles	1 055 409	-	(135 597)	-	-	(321 629)	598 183
Office equipment	78 707	158	(2 129)	-	-	(26 434)	50 302
IT equipment	494 165	123 017	(24 330)	-	-	(164 304)	428 548
Infrastructure	32 277 571	14 116 380	-	(4 065 860)	206 592	(4 874 153)	37 660 530
Community	34 360 421	2 043 967	-	(1 372 705)	-	(1 272 585)	33 759 098
Security Measures	15 522	-	-	-	-	(4 293)	11 229
Communication equipment	30 644	13 259	(1 763)	-	-	(15 044)	27 096
Assets under Construction	20 185 206	538 829	-	-	-	(855 222)	19 868 813
Kitchen Equipment	14 881	8 600	(164)	-	-	(6 150)	17 167
	104 239 184	**17 012 300**	**(354 676)**	**(5 438 565)**	**206 592**	**(8 003 643)**	**107 661 192**

Notes to the Annual Financial Statements

Figures in Rand

9. Heritage assets (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Additions through transfer of functions / mergers	Transfers received	Transfers	Revaluations	Other changes, movements	Depreciation	Impairment loss	Total
Land	11 232 000	-	-	-	-	-	-	-	-	11 232 000
Buildings	2 869 690	121 025	-	-	-	-	-	(153 502)	-	2 837 213
Plant and machinery	1 361 154	-	45 010	-	-	-	-	(188 419)	(26 716)	1 191 029
Furniture and fixtures	569 803	15 278	-	-	-	-	-	(118 665)	-	466 416
Motor vehicles	95 062	1 297 427	-	-	-	-	(89 477)	(247 603)	-	1 055 409
Office equipment	81 946	24 475	-	-	-	-	-	(27 714)	-	78 707
IT equipment	301 289	360 375	-	-	-	-	-	(167 499)	-	494 165
Infrastructure	33 372 706	-	-	4 201 069	-	2 550 078	-	(3 920 688)	(3 925 594)	32 277 571
Community	30 910 018	702 240	897 760	2 999 383	-	-	-	(1 148 980)	-	34 360 421
Security Measures	25 833	5 250	-	-	-	-	-	(15 561)	-	15 522
Communication equipment	31 822	8 053	-	-	-	-	-	(9 231)	-	30 644
Assets under Construction	12 987 133	14 398 525	-	-	(7 200 452)	-	-	-	-	20 185 206
Kitchen Equipment	16 334	4 033	-	-	-	-	-	(5 486)	-	14 881
	93 854 790	**16 936 681**	**942 770**	**7 200 452**	**(7 200 452)**	**2 550 078**	**(89 477)**	**(6 003 348)**	**(3 952 310)**	**104 239 184**

Revaluations

The effective date of the revaluations of infrastructure assets was Friday, 30 June 2017. Revaluations were performed by independent valuer, who is not connected to the municipality. The valuations for infrastructure assets are performed by an independent professional, suitably qualified and experienced property valuer every year who has recent experience in the location and category of the infrastructure assets being valued.

9. Heritage assets (continued)

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

10. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 991 121	(943 247)	1 047 874	1 306 336	(991 349)	314 987

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software	314 987	1 348 314	(615 427)	1 047 874

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	165 314	663 528	(513 855)	314 987

11. Repairs and Mantainance

Contracted Services	863 028	871 455
General expenses	17 889	21 053
	880 917	**892 508**

12. Payables from exchange transactions

Trade payables	1 691 280	165 367
Payments received in advanced	114 546	47 427
Accrued bonus	595 500	580 870
Commission	25 400	25 400
Deposits received	4 146	4 800
Retention	1 170 242	203 189
	3 601 114	**1 027 053**

13. Unspent conditional grants and receipts

The municipality received in total an amount of R33 643 262 for conditional grants during the 2016/2017 financial year.The municipality had an unspent amount of R813 571 at the end of the financial year 2016/2017.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

13. Unspent conditional grants and receipts (continued)

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Sprorts Field - KwaNxamalala Grant	75 015	-
Housing Fund Grant	381 091	381 091
Electrification Grant	75 908	-
Sport and Recreation Grant	281 557	-
	813 571	**381 091**

Movement during the year

Balance at the beginning of the year	381 091	464 160
Additions during the year	33 343 262	32 258 440
Income recognition during the year	(32 910 782)	(32 341 509)
	813 571	**381 091**

These amounts are invested in a ring-fenced investment until utilised. Revenue is only recognised from these conditional grants once all conditions relating to expenditure are fulfilled.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

14. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	810 000	81 000	-	891 000
Leave pay provision	1 787 689	-	(56 724)	1 730 965
	2 597 689	**81 000**	**(56 724)**	**2 621 965**

Reconciliation of provisions - 2016

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	810 000	40 579	(40 579)	810 000
Leave pay provision	1 137 832	697 614	(47 757)	1 787 689
	1 947 832	**738 193**	**(88 336)**	**2 597 689**

The provisions for the above relates to expenses directly attributed to the rehabilitation of landfill site and leave pay-out for staff leave days. The municipality expects to incur these expenses during the next financial year and the amount to be incurred is uncertain.

Environmental rehabilitation provision

In terms of the licencing of the Landfill refuse site, the municipality will incur licensing costs and rehabilitation costs estimated at R891,000 to restore the site at the end of its useful life. Provision has been made, taking into account the independent valuer's report, for the net present value of this cost, using the average cost of borrowing interest rate. The provision will be funded internally by internally generated revenue.

The municipality is not certain of the amount which might be incurred in the rehabilitation of the landfill site.

Employee benefit cost provision

The above provision for leave pay relates to the number of days accumulated by the employees during the reporting period. The leave pay provision is calculated on all outstanding leave balances as at 30 June 2017. This is the amount that the employees would be entitled to receive should the employees resign or cease employment with the municipality on 30 June 2017.

The municipality is not certain when will the leave days be paid out to employees as this depends on when will employees resign or cease employment with the municipality.

15. Long Term Loan

	2017	2016
Non-current		
ABSA Loan	1 868 081	2 416 708
Less : Short - term portion transferred to current liabilities	(603 028)	(548 627)
	1 265 053	**1 868 081**
Current liabilities		
Current portion of Long term loan	603 028	548 627

During 2015/16 financial year, the municipality had taken a long-term loan of R3 million. The loan is repaid in sixty (60) monthly installments over the period of loan term at a fixed interest rate of 9.50 percent.

16. Employee benefit obligations- Long Service Award

Movement in the present value of the defined benefit obligation	2017	2016
Opening Balance	610 695	445 623
Current service Costs	93 625	78 809
Interest cost	49 922	36 771
Actuarial (gain)/losses	(88 116)	49 492
	666 126	**610 695**

The actuarial valuation of long service award report has been performed by Arch Actuarial Consulting.The Projected Unit Credit Method has been used to value the long service award and the effective date of this valuation is 30 June 2017.

Key assumptions used

Assumptions used at the reporting date:The expected inflation assumption of 5.64% was obtained from the differential between market yields on index-linked bonds (2.56%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.84%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as ((1+8.84%-0.50%)/1+2.56%))-1. Thus, a general salary inflation rate of 6.64.% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 2.06.%. It has been assumed that the next salary increase will take place on 1 July 2017.

Salary Inflation Rate: This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the Long Service Awards are based on an employee's salary at the date of the award.

General Salary Inflation: This assumption is more stable relative to the growth in Consumer Price Index than in absolute terms. Experience has shown that over the long term, salary inflation will exceed general inflation by 1.0%.

Key Financial Assumptions		
Duscount Rate	8,84%	8.60%
General Salary Inflation	6,64%	7,25%

The salaries used in the valuation include an assumed increase on 01 July 2017 of 7.36% as per the SALGBC Circular No: 02//2017. The next salary increase was assumed to take place on 01 July 2018.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

Key Demographic Assumptions

Withdrawal from Service (sample annual rate)	Age	Female	Male
	20	24%	16%
	30	15%	10%
	40	6%	6%
	50	2%	2%
	55	1%	1%

It has been assumed that male employees will retire at 62 and female at age 50.

The mortality rate during employment in South Africa is 85 years to 90 years

17. Revaluation reserve

	2017	2016
Opening balance	13 943 661	11 393 583
Change during the year	206 592	2 550 078
	14 150 253	**13 943 661**

18. Service charges

	2017	2016
Refuse removal	48 128	44 691

19. Revenue

	2017	2016
Rendering of services	49 091	46 177
Service charges	48 128	44 691
Rental of facilities and equipment	630 523	193 591
Rental income	3 365	251 827
Donations received	-	942 770
Other income	123 375	171 085
Debt impairment recovered	-	2 063 933
Interest received - investment	1 410 804	1 293 665
Property rates	4 489 770	4 064 654
Government grants and subsidies	61 435 415	62 649 069
Fines, Penalties and Forfeits	1 270	305 050
Licences and permits	29 328	36 383
	68 221 069	**72 062 895**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	48 128	44 691
Rendering of services	49 091	46 177
Rental of facilities and equipment	630 523	193 591
Rental income	3 365	251 827
Donation income	-	942 770
Other income	123 375	171 085
Debt impairment recovered	-	2 063 933
Interest received	1 410 804	1 293 665
	2 265 286	**5 007 739**

Figures in Rand	2017	2016

19. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	4 489 770	4 064 654
Transfer revenue		
Government grants & subsidies	61 435 415	62 649 069
Fines, Penalties and Forfeits	1 270	305 050
Licences and permits	29 328	36 383
	65 955 783	**67 055 156**

20. Rental of facilities and equipment

Facilities and equipment		
Hall Hire	15 132	14 200
Rental of equipment	6 204	6 274
Residential Rental- Lot 52	56 761	44 958
Rental income- Thusong Centre	318 820	102 772
Rental income- Market Stalls	233 606	25 387
	630 523	**193 591**

21. Other income

Sundry Receipts	4 715	13 103
Tender Fees	34 030	76 184
Rates Certificates	5 441	3 857
Local Government SETA Refund	40 790	40 420
Copies, Fax and Printing	38 399	37 521
	123 375	**171 085**

22. Investment revenue

Interest revenue		
Interest on Investments	908 429	934 811
Interest charged on trade and other receivables	502 375	358 854
	1 410 804	**1 293 665**

The amount included in Investment revenue arising from exchange transactions amounted to R1,410 804.

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R1,410 804 (PY: R1293 665).

23. Property rates

Rates received

Residential	168 366	192 365
Commercial property	346 161	1 278 099
Government	2 354 884	2 339 710
Small holdings and farms	1 615 868	296 854
Multi-purpose	4 491	4 136
Less: Income forgone	-	(46 510)
	4 489 770	**4 064 654**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

24. Government grants and subsidies

Operating grants		
Equitable share	28 234 300	30 307 560
Finance Management Grant	1 825 000	1 771 534
Cyber Cadet Grant (Art & Culture)	738 000	170 000
Municipal Systems Improvement Grant	-	514 428
LG SETA Grant	400 000	1 864 627
Sports Field Grant	1 065 547	-
Thusong Grant	-	61 210
Expanded Public Works Programme Grant	1 433 333	1 255 000
Library Grant	-	553 000
Free Basic Electricity Grant	3 114 700	2 635 440
Sport Field Maintenance Grant	318 443	-
	37 129 323	39 132 799
Capital grants		
Municipal Infrastructure Grant	16 382 000	17 063 000
Municipal Systems Improvement Grant	-	415 572
Thusong Grant	-	9 232
Electrification Grant	7 924 092	6 000 000
Finance Management Grant	-	28 466
	24 306 092	23 516 270
	61 435 415	**62 649 069**

Equitable Share

In terms of the Constitution of the Republic of South Africa, the Equitable Share Grant is used to subsidise the provision of basic services to indigent community members and facilitation of service delivery.

All registered indigents receive a monthly free basic electricity which was allocated as a percentage of the Equitable Share.

Free Basic Electricity Grant

Current-year receipts	3 114 700	2 635 440
Conditions met - transferred to revenue	(3 114 700)	(2 635 440)
	-	**-**

All conditions were met.

This grant is to be used to provide monthly subsidy of 50kW of electricity free to indigent people.

The grant was transferred by National Treasury

The focus was to assist the municipality to subsidise indigent people in the community with free basic services.

As at 30 June 2017, implementation was 100% complete and the grant had been spent in full.

Sports Field Grant

Current-year receipts	1 140 562	-
Conditions met - transferred to revenue	(1 065 547)	-
	75 015	**-**

Conditions still to be met - remain liabilities (see note 13).

As at 30 June 2017, the implementation was 93% complete and the grant had been spent in full.

Figures in Rand	2017	2016

24. Government grants and subsidies (continued)

The grant is used for construction of Nxamalala Sports field.

This grant was transferred by the Department of Sports and Recreation

Cyber Cadet Grant

Current-year receipts	179 000	170 000
Conditions met - transferred to revenue	(179 000)	(170 000)
	-	-

Conditions to the grant were met in full - (see note 13).

The grant is to be used to pay Cyber Cadet's salary.

The grant was transferred by Provincial Library Services Department.

As at 30 June 2017, the implementation was 100% complete and the grant had been spent in full.

Housing Fund Grant

Balance unspent at beginning of year	381 091	381 091

All conditions were met.

The grant is to be used for financing the preliminary stage of housing development.

The grant was transferred by the Department of Human Settlement.

The focus was to finance housing preliminary stage.

The municipality made an application to the Department of Human Settlement to use the remainder of this grant towards building rental flats or putting water septic tanks on houses built using this grant, the business plans submitted to Department of Human settlement are awaiting approval.

Municipal Infrastructure Grant

Current-year receipts	16 382 000	17 063 000
Conditions met - transferred to revenue	(16 382 000)	(17 063 000)
	-	-

All conditions were met.

The grant is to be used for infrastructure development only.

The grant was transferred by National Treasury.

The grant intended focus is to provide specific capital finance for basic municipal infrastructure backlogs for the poor households to micro-enterprises and social institutions servicing poor communities.

The municipality initially received R11 382 000 which was the amount which was initially gazetted and subsequently received an additional R5,000,000.00 during the third quarter of the year.

The grant was 100% implemented and the grant had been spent in full.

Electrification Grant

Current-year receipts	8 000 000	6 000 000

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

24. Government grants and subsidies (continued)

Conditions met - transferred to revenue	(7 924 092)	(6 000 000)
	75 908	**-**

The conditions of this grant were met- remain liabilities (see note 13)..

As at 30 June 2017, the implementation was 99% complete and the grant had been spent in full.

The grant is used for the implementation of the integrated national electrification by providing capital subsidies to Eskom to address the electrification backlogs of permanently occupied dwellings, the installation of bulk infrastructure and rehabilitation of electrification infrastructure.

This grant was transferred by the Department of Energy.

Sports and Recreation Grant

Current-year receipts	600 000	-
Conditions met - transferred to revenue	(318 443)	-
	281 557	**-**

Conditions to the grant were met in full - remain liabilities (see note 13).

This grant is for mass participation and sport development aimed at increasing and sustaining mass participation in sports and recreational activities.

The grant was transferred by the Department of Sport and Recreation.

The implementation was 100% for the first R300 000 received at the beggining dof the financial year. An additional R300 000 was received on 30 June 2017.

Expanded Public Works Programme Grant

Current-year receipts	1 443 000	1 255 000
Conditions met - transferred to revenue	(1 443 000)	(1 255 000)
	-	**-**

The conditions of this grant were met in full.

As at 30 June 2017, the implementation was 100% complete and the grant had been met in full.

The EPWP Grant creates work opportunities in four sectors, namely; increasing the labour intensity of government- funded by infrastructure projects, create work opportunities through the Non-Profit Organisation Programme (NPO) and Community Work Programme (CPW) under the Non-State Sector, create work opportunities in public environment and culture programmes under the Environment and Culture Sector, create work opportunities in the Public Social Programme under the Social Sector. The EPWP also provides training and enterprise development support, at a sub-programme level.

The grant was transferred by the Department of Public Works.

Figures in Rand	2017	2016

24. Government grants and subsidies (continued)

Thusong Grant

Balance unspent at beginning of year	-	70 442
Conditions met - transferred to revenue	-	(70 442)
	-	-

Conditions still to be met - remain liabilities (see note 13).

This is an ongoing initiative that focuses in the rural areas and under-serviced areas with the following key objectives:

- To bring government information and services closer to the people and to promote cost-effective, integrated, efficient and sustainable service provision to better serve the needs of citizens;
- To promote access to opportunities as a basis for improved livelihoods;
- To create a platform for greater dialogue between citizens and government.

Finance Management Grant

Current-year receipts	1 825 000	1 800 000
Conditions met - transferred to revenue	(1 825 000)	(1 800 000)
	-	-

The grant is to be used to finance the cost for the establishment of budget and treasury office, establishment of supply chain management, internal audit and audit committee, appointment and training of finance interns, preparing and timely submission of annual financial statements, implement corrective actions to address audit findings and the implementation of a financial recovery plan and implementation thereof where appropriate.

The grant was transferred by National Treasury.

The focus of this grant is to promote and support reforms of financial management by building capacity in municipalities to implement the Municipal Finance Management Act No.56 of 2003.

As at 30 June 2017, implementation was 100% complete and the grant had been spent in full.

Municipal Systems Improvement Grant

Current-year receipts	-	1 864 627
Conditions met - transferred to revenue	-	(1 864 627)
	-	-

All conditions of the grant were met.

This grant is to be used for municipal systems improvement.

The grant was transferred by National Cooperative Governance and Traditional Affairs.

The focus of this grant is to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems that support effective service delivery as required in the Municipal Systems Act, 2000 and related legislations and policies.

Library Grant (Art and Culture)

Current-year receipts	559 000	553 000
Conditions met - transferred to revenue	(559 000)	(553 000)
	-	-

24. Government grants and subsidies (continued)

All conditions were met.

This grant is to be used to transform urban and rural community library infrastructure facilities and services through a recapitalised programme of provincial level in support of local government and national initiatives.The grant was transferred by Provincial Library Department

The focus for this grant was to assist the municipality to finance the salary of the library staff

As at 30 June 2017, implementantion was 100% complete and the grant had been spent in full.

LG SETA Grant

	2017	2016
Balance unspent at beginning of year	-	12 627
Current-year receipts	400 000	1 852 000
Conditions met - transferred to revenue	(400 000)	(1 864 627)
	-	-

All conditions were me- remain liabilities (see note 13).

The grant is for the implementation of the National Skills Development Strategy III for 2011 to 2017 developed by the Minister of Higher Education and training as directed by the Skill Development (Act No. 97 of 1998) and the Skills Development Levy Act (Act No. 9 of 1999) by improving the effectiveness and efficiency of the skills development systems..

The focus is promotion and support of the integration of theoretical learning with workplace training and provision of learning programme to learners.

As at 30 June 2017, implementation was 100% complete

Changes in level of government grants

Based on the allocations set out in the Division of Revenue (Act of 2015), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years, except for the Municipal Systems Improvement Grant which will cease to exist as at the 2016/17 financial year.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

25. Employee related costs

Basic	13 490 900	11 799 883
Bonus	1 057 721	943 433
Medical aid - company contributions	902 405	830 872
UIF	154 597	135 645
SDL	212 995	193 625
Bargaining Council Levies	8 486	7 642
Leave pay provision charge	286 124	697 614
Long Service Awards- Actuarial Loss	-	49 492
Defined contribution plans	1 941 965	1 701 261
Overtime payments	186 650	95 849
Long-service awards	93 625	78 809
Housing benefits and allowances	72 830	58 490
Cellphone Allowance	646 229	12 000
Standby Allowances	25 459	19 260
Non-Pensionable Allowance	117 250	114 817
	19 197 236	**16 738 692**

Remuneration of Municipal Manager

Annual Remuneration	250 463	706 661
Other	115 034	144 000
	365 497	**850 661**

Remuneration of Chief Finance Officer

Annual Remuneration	651 384	510 531
Other	224 772	280 250
	876 156	**790 781**

Remuneration for Community and Corporate Services Manager

Annual Remuneration	701 067	577 327
Other	187 433	112 300
	888 500	**689 627**

Remuneration for Infrastructure & Planning Services Manager

Annual Remuneration	803 257	677 984
Contributions to UIF, Medical and Pension Funds	75 643	-
	878 900	**677 984**

Total Remuneration

Total Remuneration	22 206 289	19 747 745

26. Remuneration of councillors

Mayor	713 136	713 136
MPAC Chairperson	282 721	282 721
Councillors (All councillors except MPAC Chairperson are in the same bracket)	1 164 981	1 110 254
	2 160 838	**2 106 111**

There were no councillors who had arrear accounts outstanding for more than 90 days during the reporting period.

26. Remuneration of councillors (continued)

In-kind benefits

The remuneration of the Political Office Bearers and Councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.

The Mayor is full-time. He is provided with an office, cellphone, 3G modem and a laptop at the cost of the Council.

The Mayor utilises Council owned vehicle for official duties.

The Mayor has two full-time mayoral aids sourced within municipal security section.

27. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Amount paid - current year	916 801	971 466

PAYE and UIF

Current year subscription / fee	3 125 153	3 218 577

Pension and Medical Aid Deductions

Amount paid - current year	1 941 965	2 532 133

VAT

VAT receivable	1 070 870	671 272

VAT output payables and VAT input receivables are shown in note 5.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

As of 30 June 2017, no Councillors had arrear accounts outstanding for more than 90 days:

28. Depreciation and amortisation

Property, plant and equipment	7 513 020	6 517 203

Figures in Rand	2017	2016

29. Impairment of assets

Impairments		
Property, plant and equipment	1 560 978	4 643 033
Plant and Equipment and Infrastructure Assets were revalued and assessed for impairment during the reporting period. Certain Plant within the Plant & Equipment was subsequently impaired by R4,643,033 and impairment was reversed on certain Infrastructure Assets which were previously impaired. The impairment reversal amounted to R690,723.		
Reversal of impairments		
Property, plant and equipment	1 316 734	(690 723)
Infrastructure assets which were previously impaired, were revalued and the impairment loss for the previous year was reversed . The recoverable service amount of the asset was based on its fair value less its value in use.		
Total impairment losses (recognised) reversed	**2 877 712**	**3 952 310**

During the 2014/15 financial year, infrastructure assets were impaired with an amount of R1,355,477. This class of assets above was revalued during the 2015/16 financial year and there a further increase in impairment amounting to R3,952,310.

30. Finance costs

Non-current borrowings	255 997	292 983

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R255 997 - (2016: R 36 986).

31. Bad Debts

Bad Debts	369 477	167 721

32. Contracted services

Rerpairs and Mantainance	863 028	871 455
Specialist Services	926 795	1 480 499
	1 789 823	**2 351 954**

Contracted services were for services rendered by Chubb, Nashua, Minolta for the rental of security alarms and photocopying machines.

33. Grants funded expenditure

Other subsidies		
Library Grant	791 447	745 171
Public Participation Framework	-	1 450
Cyber Cadet Grant	218 620	200 848
Electrification projects	6 950 958	6 059 820
Municipal System Improvement Grant	766 271	613 932
LG SETA Grant	426 606	1 801 706
Finance Managment Grant	1 666 406	1 676 264
Thusong Services	-	5 717
Expanded Public Works	1 862 732	1 931 166
Sports Facilities Maintenance	318 443	-
	13 001 483	**13 036 074**

Figures in Rand	2017	2016

34. General expenses

Advertising	125 997	180 688
Bank charges	59 573	63 083
Cleaning Material	72 538	22 422
Commission paid	-	85 100
Consulting and professional fees	6 531	-
Consumables	11 971	11 851
Insurance	188 879	159 424
Conferences and seminars	46 355	23 462
Legal Fees	143 370	101 827
Motor vehicle licence fees	12 391	9 481
Fuel and oil	639 065	402 397
Printing and stationery	119 268	172 234
Protective clothing	144 810	111 453
Restoration of landfill site	82 854	40 579
Employee Assistant Program	8 907	2 017
Subscriptions and membership fees	501 590	511 395
Telephone and fax	646 196	406 823
Training	328 990	536 610
Subsistence & Travelling	253 364	231 385
Electricity	3 530 830	3 298 820
Library projects	-	18 100
LED Business plans and strategy	99 917	40 275
Art tourism culture	297 745	160 690
Children support	12 000	-
Elderly support	59 018	133 638
HIV- Health	34 000	36 147
Poverty Alleviation	-	10 450
Project management	485 309	577 759
Other expenses	3 493 133	4 276 378
	11 404 601	**11 624 488**

35. Fair value adjustments

Investment property (Fair value model)	485 000	330 000

36. Cash generated from operations

Surplus	5 436 031	11 480 155
Adjustments for:		
Depreciation and amortisation	7 513 020	6 517 203
Gain on disposal of assets	-	(23 098)
Fair value adjustments	(485 000)	(330 000)
Impairment deficit	2 877 712	3 952 310
Bad Debts	369 477	167 721
Movements in operating lease assets and accruals	(82 686)	82 648
Movements in provisions	24 276	649 857
Changes in working capital:		
Receivables from exchange and non exchange transactions	(231 576)	366 842
Consumer debtors	-	(3 911 290)
Payables from exchange transactions	2 574 070	(500 229)
VAT	(399 598)	(149 568)
Unspent conditional grants and receipts	432 480	(83 069)
Current portion of Long Term Loan	54 401	165 072
	18 082 607	**18 384 554**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

37. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	8 967 062	2 315 825
Total capital commitments		
Already contracted for but not provided for	8 967 062	2 315 825

This committed expenditure relates to plant and equipment and will be financed by available Municipal Infrastructure Grant Allocation gazetted in the 2016/17 DORA Allocation.

The operating commitments includes outstanding operating leases commitments which are financed by the operating revenue through surplus income and equitable share.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	711 505	668 915
- in second to fifth year inclusive	926 692	1 638 197
	1 638 197	**2 307 112**

Operating lease payments represent rentals payable by the municipality for certain of its office photocopying machines. Leases are negotiated for an average term of five years and rentals have straightlined for the lease term duration. No contingent rent is payable.

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	488 643	423 879
- in second to fifth year inclusive	337 402	826 045
	826 045	**1 249 924**

Certain of the municipality's facilities is held to generate rental income. Rental of these facilities is expected to generate rental on an ongoing basis. Lease agreements are cancelable with three months written notice by either party and have terms from 1 to 5 years. There are no contingent rents receivable.

38. Related parties

There were no related party transaction for the financial period.

39. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

40. Fruitless and wasteful expenditure

Opening Balance	2 019	1 148 244
Amount report to council and written off	-	(1 148 244)
Current year amount	1 354	2 019
	3 373	**2 019**

Notes to the Annual Financial Statements

Figures in Rand

40. Fruitless and wasteful expenditure (continued)

The fruitless and wasteful expenditure for the previous period was reported to council for investigation. Council resolved to write-off the expenditure following investigation outcomes.

The fruitless and wasteful expenditure for the current year relates interest charged by service providers for late payment of invoices.

41. Irregular expenditure

Opening balance	44 947	1 642 500
Add: Irregular Expenditure - current year	847 876	44 947
Less: Amounts condoned	-	(1 642 500)
	892 823	**44 947**

Analysis of expenditure awaiting condonation per age classification

Current year	847 876	44 947

Details of irregular expenditure written off

Condoned by (condoning authority)	44 947
	-
	-
	-
	44 947

42. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the annual financial statements.

In terms of section 36 of the Municipal Supply Chain Management Regulations, any deviation from Supply Chain Management Policy needs to be approved by the Accounting Officer and noted by Council. All expenses incurred have been condoned by Council.

All deviations have been approved by Council and have been report in terms of section 114 of the Municipal Finance Management Act, 56 of 2003.

Summary of deviations:	MFMA Regulations	2017	2016
Transport services	36(1)(a)(ii)	262 098	178 327
Advertisement services	36(1)(a)(v)	149 376	269 997
Repairs of plant	36(1)(a)(ii)	75 253	118 082
Other	36(1)(a)(ii)	24 305	139 922
		511 032	**706 328**

43. Contingencies

A contingent liability from the possible outflow of money as a result of a litigation. The municipality had no contingent liability during the reporting period.

44. Budget differences

The excess of actual expenditure over the final budget of 15% over or under approved budget is explained under this note.

Material differences between budget and actual amounts

Rendering of services- This relates to actual commission income from motor licensing in excess of budgeted income which includes planning fees that were not anticipated thus were not budgeted for.

Rental Income- Transfer of operating lease income that was budgeted as rental of facilities and equipment.

Interest received on investments- Interest accrued on investments which relates to conditional grants was higher than budgeted for due to high rate of return on investments and a further investment of MIG during the latter part of the year.

Rental of facilities and equipment- Contracts not concluded with Social Development and thus not billed as budgeted. Donations received- This relates to donated assets which were received at the latter stage of the financial year.

Other Income- Budgeted income comprises of housing grant own income, interest on outstanding debtors that was budgeted for under investment income.

Property rates penalties- Albeit municipal credit control and debt management policy stipulates a charge for interest against outstanding debt, it is not feasible to charge twelve months interest on outstanding customers as 90% are not paying their accounts.

Government Grants- Budget has not taken into account capital expenditure whilst income per GRAP Standard includes MIG and other capital related expenditure recognised as revenue.

Administration- A portion of administration expenditure budgeted for included as general expenses.

Depreciation and amortisation- the variance in budget is as a result of huge amounts of Work-in-progress capitalised during the reporting period.

Bad debt written off- The municipality did not anticipate writing off debtors and this line item was not budgeted for.

Impairment loss/ Reversal of impairment loss- this relates to revaluation of infrastructure assets which is done at year-end.

Finance Costs- interest on long service awards was not budgeted for during the reporting period.

Debt impairment- debtors impairment per write-off, accounting policy and Municipal Property Rates Act (Section 17).

Contracted Services- expenditure relating to contract services transferred from telephone expense which resulted in an increase in the contracted services expense.

Grants and Subsidies- expenditure of roll-over grants recognised as revenue.

General expenses- the municipality applied stringent monitoring measure on general expenses to cut down costs.

Fair value adjustments- this relates to appraisal of investment properties owned by the municipality, this item is a non-cash item and as such it was not budgeted for during the reporting period.

Interest income- Grants received were expected to finished in the earlier half of the reporting period.

Receipts from customers- relates to receipts for property rates, rates clearance certificates that was collected during the year. Included is also the rental income and hire of facilities.

Grants- The municipality received an additional funding from National Treasury for MIG towards the financial year end.

Interest received- investments- This relates to accrued interest on short-term deposits which relates to unspent conditional grants which was higher due to high rate of return on investment and a further receipt of additional MIG funding during the latter part of the year.

44. Budget differences (continued)

Other receipts- Comprises of housing grant, own income and interest on outstanding debtors that were budgeted for the year whilst actual income relates to housing income only.

Payment to suppliers- relates to additional payment made on capital expenditure to contracted/ awarded contractors. Includes portion of FBE to be classified under transfers and grants.

45. Assets under Work In Progress

Infrastructure - Roads	5 320 830	5 637 223
Community Assets	14 547 983	14 547 983
	19 868 813	**20 185 206**